

HOUSE BILL No. 1390

DIGEST OF INTRODUCED BILL

Citations Affected: IC 27-1; IC 27-5.1; IC 27-7-3; IC 27-13-11-1; IC 27-1-13-3.

Synopsis: Insurer investments. Specifies investments that may be made by certain insurers and health maintenance organizations. Repeals the current law concerning property and casualty insurer investments. Makes conforming amendments.

Effective: July 1, 2006.

Ripley

January 12, 2006, read first time and referred to Committee on Insurance.

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Second Regular Session 114th General Assembly (2006)

PRINTING CODE. Amendments: Whenever an existing statute (or a section of the Indiana Constitution) is being amended, the text of the existing provision will appear in this style type, additions will appear in **this style type**, and deletions will appear in ~~this style type~~.

Additions: Whenever a new statutory provision is being enacted (or a new constitutional provision adopted), the text of the new provision will appear in **this style type**. Also, the word **NEW** will appear in that style type in the introductory clause of each SECTION that adds a new provision to the Indiana Code or the Indiana Constitution.

Conflict reconciliation: Text in a statute in *this style type* or ~~this style type~~ reconciles conflicts between statutes enacted by the 2005 Regular Session of the General Assembly.

HOUSE BILL No. 1390

A BILL FOR AN ACT to amend the Indiana Code concerning insurance.

Be it enacted by the General Assembly of the State of Indiana:

1 SECTION 1. IC 27-1-13.5 IS ADDED TO THE INDIANA CODE
2 AS A **NEW** CHAPTER TO READ AS FOLLOWS [EFFECTIVE
3 JULY 1, 2006]:

4 **Chapter 13.5. Insurance Company Investments**

5 **Sec. 1. As used in this chapter, "acceptable collateral" means**
6 **the following:**

7 **(1) For securities lending transactions and for the purpose of**
8 **calculating counterparty exposure:**

9 **(A) cash;**

10 **(B) cash equivalents;**

11 **(C) letters of credit; and**

12 **(D) direct obligations of, or securities that are fully**
13 **guaranteed as to principal and interest by, the United**
14 **States government or an agency of the United States.**

15 **(2) For lending foreign securities, sovereign debt rated 1 by**
16 **the SVO.**

17 **(3) For repurchase transactions:**

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(A) cash;

(B) cash equivalents; and

(C) direct obligations of, or securities that are fully guaranteed as to principal and interest by, the United States government or an agency of the United States.

(4) For reverse repurchase transactions:

(A) cash; and

(B) cash equivalents.

Sec. 2. As used in this chapter, "admitted assets" means assets permitted to be reported as admitted assets on an insurer's statutory financial statement most recently required to be filed with the commissioner.

Sec. 3. As used in this chapter, "affiliate" means a business entity that, directly or indirectly, through one (1) or more intermediaries, controls, is controlled by, or is under common control with, an insurer.

Sec. 4. (a) As used in this chapter, "asset backed security" means a security or other instrument, other than a mutual fund, that evidences an interest in or the right to receive payments from, or that is payable from distributions on, an asset, a pool of assets, or specifically divisible cash flows that are legally transferred to a trust or another special purpose bankruptcy remote business entity, if all the following apply:

(1) The trust or other business entity is established solely to:

(A) acquire specific types of assets or rights to cash flows;

(B) issue securities and other instruments that represent an interest in or right to receive cash flows from the assets or rights described in clause (A); and

(C) engage in activities required to service:

(i) the assets or rights described in clause (A); and

(ii) credit enhancement or support features held by the trust or other business entity.

(2) Except as provided in subsection (b), the assets of the trust or other business entity consist solely of interest bearing obligations or contractual obligations that represent the right to receive payment from the cash flows from the assets or rights described in subdivision (1)(A).

(3) The securities carry a rating of at least 1 by the SVO.

(b) The existence of credit enhancements, such as letters of credit or guarantees, does not cause a security or other instrument to be ineligible as an asset-backed security.

Sec. 5. As used in this chapter, "basket clause" means

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investments or investment practices that:

- (1) are not specifically prohibited by this chapter; or
- (2) do not include investments in an:
 - (A) insolvent organization; or
 - (B) organization in default with respect to the payment of principal or interest on the organization's obligations.

Sec. 6. (a) As used in this chapter, "bond" means an instrument that:

- (1) creates a contractual right of an entity to receive:
 - (A) cash; or
 - (B) another bond with a stated maturity of more than one (1) year at the time of acquisition;
- from another entity; and
- (2) is rated or required to be rated by the SVO or a nationally recognized statistical rating organization that is recognized by the SVO.

(b) The term does not include:

- (1) an instrument that is mandatorily, or at the option of the issuer, convertible to an equity interest; or
- (2) a security that has a par value and whose terms provide that the issuer's net obligation to repay all or part of the security's par value is determined by reference to the performance of an equity, a commodity, a foreign currency, or an index of equities, commodities, foreign currencies, or combinations of equities, commodities, and foreign currencies.

Sec. 7. As used in this chapter, "business entity" means the following:

- (1) A sole proprietorship.
- (2) A corporation.
- (3) An association.
- (4) A limited liability company.
- (5) A general partnership.
- (6) A limited partnership.
- (7) A limited liability partnership.
- (8) A joint stock company.
- (9) A joint venture.
- (10) A trust.
- (11) A joint tenancy.
- (12) Another similar profit or nonprofit form of business organization.

Sec. 8. As used in this chapter, "cap" means an agreement that provides the following:

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(1) The seller is obligated to make payments to the buyer.

(2) Each payment described in subdivision (1) is based on the amount by which:

(A) a reference price or level; or

(B) the performance or value of one (1) or more underlying interests;

exceeds a predetermined number (the strike rate or strike price).

Sec. 9. As used in this chapter, "cash" means any of the following:

(1) United States denominated paper currency and coins.

(2) Negotiable money orders and checks.

(3) Funds held in a time or demand deposit in a depository institution, the deposits of which are insured by the Federal Deposit Insurance Corporation.

Sec. 10. (a) As used in this chapter, "cash equivalents" means short term, highly rated, and highly liquid investments or securities:

(1) readily convertible to known amounts of cash without penalty; and

(2) so near maturity that they present insignificant risk of change in value.

(b) The term includes government money market mutual funds and class one money market mutual funds.

(c) For purposes of this definition:

(1) "short term" means investments with a remaining term to maturity of not more than ninety (90) days; and

(2) "highly rated" means an investment rated:

(A) P-1 by Moody's Investors Service, Inc.;

(B) A-1 by Standard and Poor's division of The McGraw Hill Companies, Inc.; or

(C) an equivalent rating by a nationally recognized statistical rating organization recognized by the SVO.

Sec. 11. As used in this chapter, "class one money market mutual fund" means a money market mutual fund that at all times qualifies for investment using the bond class one reserve factor under the Purposes and Procedures of the Securities Valuation Office of the NAIC or a successor publication.

Sec. 12. As used in this chapter, "collar" means an agreement to:

(1) receive payments as the buyer of an option, a cap, or a floor; and

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(2) make payments as the seller of a different option, cap, or floor.

Sec. 13. As used in this chapter, "common stock" means a unit of ownership of a corporation that is not the owner of the common stock.

Sec. 14. (a) As used in this chapter, "corporate bond" means a bond issued by a corporation.

(b) The term does not include a bond issued by a government agency or municipality.

Sec. 15. (a) As used in this chapter, "derivative instrument" means an agreement, option, or instrument, or a series or combination of agreements, options, and instruments:

(1) to:

(A) make or take delivery of; or

(B) assume or relinquish;

a specified amount of one (1) or more underlying interests, or to make a cash settlement in lieu of an action described in clause (A) or (B); or

(2) that has a price, performance, value, or cash flow based primarily on the actual or expected price, level, performance, value, or cash flow of one (1) or more underlying interests.

(b) The term includes:

(1) options or warrants used in a hedging transaction and not attached to another financial instrument, caps, floors, collars, swaps, forwards, and futures;

(2) other agreements, options, or instruments that are substantially similar to those described in subdivision (1);

(3) a series or combination of agreements, options, or instruments described in subdivision (1); and

(4) agreements, options, or instruments permitted under rules adopted by the department.

(c) The term does not include investments otherwise authorized under this chapter.

Sec. 16. As used in this chapter, "derivative transaction" means a transaction involving the use of one (1) or more derivative instruments.

Sec. 17. As used in this chapter, "domestic government bonds" means the following:

(1) Bonds issued, assumed, guaranteed, or insured by:

(A) the United States; or

(B) a government sponsored enterprise of the United States, if the instruments of the government sponsored

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enterprise are:

(i) assumed, guaranteed, or insured by the United States;
or

(ii) otherwise backed or supported by the full faith and credit of the United States.

(2) Obligations of a domestic jurisdiction or of an administration, agency, authority, or instrumentality of a domestic jurisdiction.

(3) Obligations guaranteed, supported, or insured as to principal and interest by a domestic jurisdiction or by an administration, agency, authority, or instrumentality of a domestic jurisdiction.

(4) Obligations issued under the Farm Credit Act of 1971 (12 U.S.C. 2001 through 2279aa-14) as in effect on December 31, 1990, or the Federal Home Loan Bank Act (12 U.S.C. 1421 through 1449) as in effect on December 31, 1990, interest bearing obligations of the FSLIC Resolution Fund or shares of an institution whose deposits are insured by the Savings Association Insurance Fund of the Federal Deposit Insurance Corporation to the extent that the shares are insured, obligations issued or guaranteed by a multilateral development bank, and obligations issued or guaranteed by the African Development Bank.

(5) Obligations issued, guaranteed, or insured as to principal and interest by a city, county, drainage district, road district, school district, tax district, town, township, village, or other civil administration, agency, authority, instrumentality, or subdivision of a domestic jurisdiction, if the obligations are authorized by law and are:

(A) direct and general obligations of the issuing, guaranteeing, or insuring governmental unit, administration, agency, authority, district, subdivision, or instrumentality;

(B) payable from designated revenues pledged to the payment of the principal and interest on the obligations; or

(C) improvement bonds or other obligations constituting a first lien, except for tax liens, against all of the real estate located in the improvement district or on the part of the real estate not discharged from the lien through payment of the assessment if:

(i) the area to which the improvement bonds or other obligations relate is located within the limits of a town or

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city; and

(ii) at least fifty percent (50%) of the properties in the area are improved with business buildings or residences.

Sec. 18. As used in this chapter, "domestic jurisdiction" means the United States, Canada, a state, a province of Canada, or a political subdivision of the United States, Canada, a state, or a province of Canada.

Sec. 19. (a) As used in this chapter, "equity interest" means any of the following that are not bonds:

(1) Common stock.

(2) Preferred stock.

(3) Trust certificate.

(4) Equity investment in an investment company other than a money market mutual fund or a class one bond mutual fund.

(5) Investment in a common trust fund of a bank regulated by a federal or state agency.

(6) An ownership interest in minerals, oil, or gas, the rights to which have been separated from the underlying fee interest in the real estate where the minerals, oil, or gas are located.

(7) Instruments that are mandatorily, or at the option of the issuer, convertible to equity.

(8) Exchange traded funds.

(9) Equity investments in subsidiary and affiliated entities.

(b) The term does not include an insurer's own stock except:

(1) upon mutualization of the insurer;

(2) upon the retirement of outstanding shares of the insurer's capital stock according to an amendment of the insurer's articles of incorporation; or

(3) in connection with a plan approved by the commissioner for:

(A) purchase of shares by the insurer's officers, employees, agents; or

(B) the elimination of fractional shares.

Sec. 20. As used in this chapter, "exchange traded funds" means unit investment trusts that hold shares of multiple public companies.

Sec. 21. As used in this chapter, "floor" means an agreement obligating the seller to make payments to the buyer in which each payment is based on the amount by which a predetermined number (the floor rate or floor price) exceeds a reference price, level, performance, or value of one (1) or more underlying interests.

Sec. 22. As used in this chapter, "foreign currency" means a

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1 currency other than the currency of a domestic jurisdiction.

2 Sec. 23. As used in this chapter, "foreign government bonds"
3 means investment grade obligations issued, guaranteed, assumed,
4 or supported by a foreign jurisdiction.

5 Sec. 24. As used in this chapter, "foreign investment" means an
6 investment in obligations or equity interests that are payable in
7 United States dollars and are issued, guaranteed, assumed, insured,
8 or accepted by a foreign government or by a solvent business entity
9 that exists under the laws of a foreign government, if the
10 obligations of the foreign government or business entity meet at
11 least one (1) of the following criteria:

12 (1) A rating of 1 by the SVO.

13 (2) An equivalent rating by a nationally recognized statistical
14 rating organization that is recognized by the SVO.

15 Sec. 25. As used in this chapter, "foreign jurisdiction" means a
16 jurisdiction other than a domestic jurisdiction.

17 Sec. 26. As used in this chapter, "forward" means an agreement,
18 other than a future, to:

19 (1) make or take delivery; or

20 (2) effect a cash settlement based on the actual or expected
21 price, level, performance, or value;

22 of one (1) or more underlying interests.

23 Sec. 27. As used in this chapter, "future" means an agreement,
24 traded on a qualified exchange or qualified foreign exchange, to:

25 (1) make or take delivery; or

26 (2) effect a cash settlement based on the actual or expected
27 price, level, performance, or value;

28 of one (1) or more underlying interests.

29 Sec. 28. As used in this chapter, "government money market
30 mutual fund" means a money market mutual fund that at all times:

31 (1) invests only in:

32 (A) obligations that are issued, guaranteed, or insured by
33 the United States government; or

34 (B) collateralized repurchase agreements that are
35 composed of obligations specified in clause (A); and

36 (2) qualifies for investment without a reserve under the
37 Purposes and Procedures of the Securities Valuation Office of
38 the NAIC or a successor publication.

39 Sec. 29. As used in this chapter, "government sponsored
40 enterprise" means a:

41 (1) governmental agency; or

42 (2) corporation, limited liability company, association,

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partnership, joint stock company, joint venture, trust, or other entity or instrumentality organized under the laws of a domestic jurisdiction to accomplish a public policy or other governmental purpose.

Sec. 30. As used in this chapter, "hedging transaction" means a derivative transaction that is entered into and maintained to reduce the:

(1) risk of a change in the value, yield, price, cash flow, or quantity of; or

(2) currency exchange rate risk or degree of exposure as to; assets or liabilities that an insurer has acquired or incurred or anticipates acquiring or incurring.

Sec. 31. As used in this chapter, "home office" means real estate acquired for the convenient accommodation of an insurer's, and an insurer's affiliates', business operations, including home office, branch office, and field office operations and excess space for rent to others.

Sec. 32. As used in this chapter, "income generation transaction" means a derivative transaction involving the writing of covered call options, covered put options, covered caps, or covered floors that is intended to generate income or enhance return.

Sec. 33. (a) As used in this chapter, "insurer" includes the following:

(1) A health maintenance organization (as defined in IC 27-13-1-19).

(2) A limited service health maintenance organization (as defined in IC 27-13-1-27).

(b) The term does not include the following:

(1) An agency, authority, or instrumentality of the United States, a United States possession or territory, the District of Columbia, a state, or a political subdivision of a state.

(2) A life insurance company.

(3) A fraternal benefit society.

(4) A nonprofit medical and hospital service association.

Sec. 34. (a) As used in this chapter, "insurer investment pool" means an investment pool that meets the requirements of subsections (b) through (e) and invests only in:

(1) obligations that are rated 1 or 2 by the SVO, have an equivalent of an SVO 1 or 2 rating by a nationally recognized statistical rating organization recognized by the SVO, or, in the absence of an SVO 1 or 2 rating or an equivalent rating,

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are issued by an issuer that has outstanding obligations with an SVO 1 or 2 rating or an equivalent rating, and have a remaining maturity of not more than:

(A) three hundred ninety seven (397) days, or a put that:

(i) entitles the holder to receive the principal amount of the obligation; and

(ii) may be exercised through maturity at specified intervals not exceeding three hundred ninety seven (397) days; or

(B) three (3) years and a floating interest rate that resets not less frequently than quarterly on the basis of a current short term index (federal funds, prime rate, treasury bills, London InterBank Offered Rate (LIBOR), or commercial paper) and is subject to no maximum limit, if the obligations do not have an interest rate that varies inversely to market interest rate changes;

(2) government money market mutual funds or class one money market mutual funds;

(3) securities lending, repurchase, and reverse repurchase transactions that meet all the requirements of section 55 of this chapter, except the quantitative limitations of section 57 of this chapter; or

(4) investments that an insurer may acquire under this chapter, if the insurer's proportionate interest in the amount invested in the investments does not exceed the applicable limits under this chapter.

(b) An insurer investment pool must not:

(1) acquire securities issued, assumed, guaranteed, or insured by the insurer making the investment or by an affiliate of the insurer;

(2) borrow or incur indebtedness for borrowed money other than for securities lending and reverse repurchase transactions that meet all the requirements of section 55 of this chapter, except the quantitative limitations of section 57 of this chapter; or

(3) permit the total value of securities then loaned or sold to, purchased from, or invested in one (1) business entity under this chapter to exceed ten percent (10%) of the total assets of the investment pool.

(c) An insurer shall not acquire an investment in an investment pool if, as a result of and after giving effect to the investment, the total amount of investments held by the insurer in:

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(1) any one (1) investment pool would exceed ten percent (10%) of the insurer's admitted assets;

(2) all investment pools investing in investments described in subsection (a)(2) would exceed twenty-five percent (25%) of the insurer's admitted assets; or

(3) all investment pools would exceed forty percent (40%) of the insurer's admitted assets.

(d) The manager of an insurer investment pool must:

(1) be organized under the laws of a state or the United States;

(2) be designated as the pool manager in a pooling agreement;

(3) be:

(A) the insurer that makes the investment, an affiliated insurer, or a business entity affiliated with the insurer;

(B) a qualified bank;

(C) a business entity registered under the Investment Advisors Act of 1940 (15 U.S.C. 80a-1 et seq.);

(D) in the case of a reciprocal insurer or interinsurance exchange, the reciprocal insurer's or interinsurance exchange's attorney in fact; or

(E) in the case of a United States branch of an alien insurer, the branch's United States manager or affiliates or subsidiaries of the branch's United States manager;

(4) compile and maintain detailed accounting records setting forth:

(A) the cash receipts and disbursements reflecting each participant's proportionate investment in the investment pool;

(B) a complete description of all underlying assets of the investment pool, including amount, interest rate, maturity date, and other appropriate designations; and

(C) other records that, on a daily basis, allow third parties to verify each participant's investment in the investment pool; and

(5) maintain the assets of the investment pool:

(A) in one (1) or more accounts;

(B) in the name of or on behalf of the investment pool; and

(C) under a custody agreement, with a qualified bank, that:

(i) states and recognizes the claims and rights of each participant;

(ii) acknowledges that the underlying assets of the investment pool are held solely for the benefit of each

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participant in proportion to the total amount of the participant's investments in the investment pool; and (iii) contains an agreement that the underlying assets of the investment pool will not be commingled with the general assets of the custodian qualified bank or another person.

(e) The pooling agreement of an insurer investment pool must be in writing and provide that:

(1) one hundred percent (100%) of the interests in the investment pool must be held at all times by:

(A) an insurer and the insurer's affiliated insurers;

(B) in the case of an investment pool investing solely in investments permitted under subsection (a)(1), the insurer and:

(i) the insurer's subsidiaries or affiliates; or

(ii) a pension or profit sharing plan of the insurer or the insurer's subsidiaries and affiliates; or

(C) in the case of a United States branch of an alien insurer, affiliates or subsidiaries of the alien insurer's United States manager;

(2) the underlying assets of the investment pool must not be commingled with the general assets of the investment pool manager or another person;

(3) in proportion to the total amount of each participant's interest in the investment pool:

(A) each participant owns an undivided interest in the underlying assets of the investment pool; and

(B) the underlying assets of the investment pool are held solely for the benefit of each participant;

(4) a participant, or in the event of a participant's insolvency, bankruptcy, or receivership, the participant's trustee, receiver, or other successor in interest, may withdraw all or a part of the participant's investment from the investment pool under the terms of the pooling agreement;

(5) the investment pool manager shall make the records of the investment pool available for inspection by the commissioner;

(6) withdrawals from the investment pool may be made on demand without penalty or other assessment on a business day, but settlement of funds must occur within a reasonable and customary period not to exceed five (5) business days;

(7) in a settlement of funds described in subdivision (6), the investment pool manager shall distribute to a participant, at

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the discretion of the investment pool manager:

(A) in cash, the then fair market value of the participant's pro rata share of each underlying asset of the investment pool;

(B) in kind, a pro rata share of each underlying asset of the investment pool; or

(C) in a combination of cash and in kind distributions, a pro rata share in each underlying asset of the investment pool; and

(8) distributions under subdivision (7) must be calculated in each case net of all then applicable fees and expenses of the investment pool.

Sec. 35. As used in this chapter, "investment grade" means a bond rating of:

(1) 1 or 2 by the SVO; or

(2) an equivalent rating by a nationally recognized statistical rating organization that is recognized by the SVO.

Sec. 36. As used in this chapter, "low grade" means a bond rating of:

(1) 4, 5, or 6 by the SVO; or

(2) an equivalent rating by a nationally recognized statistical rating organization that is recognized by the SVO.

Sec. 37. As used in this chapter, "medium grade" means a bond rating of:

(1) 3 by the SVO; or

(2) an equivalent rating by a nationally recognized statistical rating organization that is recognized by the SVO.

Sec. 38. As used in this chapter, "money market mutual fund" means a mutual fund that meets the conditions specified in 17 CFR 270.2a-7 under the federal Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.).

Sec. 39. As used in this chapter, "mortgage loan" means an obligation that:

(1) is secured by a first mortgage, deed of trust, trust deed, or other consensual lien on real estate that:

(A) is located in a domestic jurisdiction;

(B) if valued based in part on improvements, is insured against fire for the benefit of the mortgagee in an amount of at least the difference between the value of the land and the unpaid balance of the loan;

(2) does not exceed eighty percent (80%) of the fair value of the real estate, as determined in a manner satisfactory to the

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department, except that the percentage stated may be exceeded if and to the extent the excess is guaranteed or insured by a:

(A) domestic jurisdiction or an administration, agency, authority, or instrumentality of a domestic jurisdiction; or
(B) private mortgage insurance corporation approved by the department;

(3) may be refinanced, modified, or extended; and

(4) may have related to the obligation:

(A) a lien inferior to the lien securing the loan made by the insurer;

(B) a tax lien or an assessment lien that is not delinquent;

(C) an instrument creating or reserving mineral, oil, water, or timber rights, rights-of-way, common or joint driveways, sewers, walls, or utility connections;

(D) a building restriction or another restrictive covenant; or

(E) an unassigned lease reserving rents or profits to the owner.

Sec. 40. As used in this chapter, "mutual fund" means an investment company or, in the case of an investment company that is organized as a series company, an investment company series, that:

(1) is registered with the United States Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. 80a-1 et seq.);

(2) has been registered as described in subdivision (1) for at least two (2) years immediately preceding the date of an insurer's purchase of shares;

(3) has net assets of at least twenty-five million dollars (\$25,000,000) on the date of an insurer's purchase of shares; and

(4) invests substantially all of the investment company or investment company series assets in investments that are permitted under this chapter.

Sec. 41. As used in this chapter, "NAIC" refers to the National Association of Insurance Commissioners.

Sec. 42. As used in this chapter, "obligation" means any of the following:

(1) A bond.

(2) A note.

(3) A debenture.

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(4) Another form of evidence of debt.

Sec. 43. As used in this chapter, "preferred stock" means preferred, preference, or guaranteed stock:

(1) of a business entity that is:

(A) not the owner of the stock; and

(B) authorized to issue the stock; and

(2) that has a preference in liquidation over the common stock of the business entity.

Sec. 44. As used in this chapter, "qualified business entity" means a business entity that is:

(1) an issuer of obligations or preferred stock that is rated:

(A) 1 or 2 by the SVO; or

(B) an equivalent rating by a nationally recognized statistical rating organization that is recognized by the SVO; or

(2) a primary dealer in United States government securities that is recognized by the Federal Reserve Bank of New York.

Sec. 45. (a) As used in this chapter, "real estate" means the following:

(1) For an insurer with admitted assets of more than twenty-five million dollars (\$25,000,000), the following if fire insurance is maintained on the real estate in an amount at least equal to the insurable value of improvements or the difference between the value of the land and the value at which the real estate is carried for statement and deposit purposes, whichever amount is less:

(A) Real property located in a domestic jurisdiction.

(B) Interests in real property, including leaseholds, minerals, and oil and gas that have not been separated from the underlying fee interest.

(C) Improvements and fixtures located on or in real property.

(D) The seller's equity in a contract providing for a deed of real estate.

(2) A leasehold if:

(A) the mortgage term does not exceed four-fifths (4/5) of the unexpired lease term, including enforceable renewable options, remaining at the time of the loan;

(B) the real estate or leasehold is located in the United States, a territory or possession of the United States, or Canada;

(C) the value of the leasehold for statement purposes is

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- 1 determined in a manner and form satisfactory to the
 2 department; and
 3 (D) at the time the leasehold is acquired and approved by
 4 the department, a schedule of annual depreciation of the
 5 value of the leasehold is established by the department,
 6 averaged over a period not to exceed fifty (50) years.
- 7 (3) The building in which an insurer has the insurer's
 8 principal office and the land on which the building stands.
- 9 (4) Real property that is necessary for the convenient
 10 transaction of an insurer's business.
- 11 (5) Real property acquired by an insurer for the
 12 accommodation of the insurer's business.
- 13 (6) Real property mortgaged to an insurer in good faith as
 14 security for loans previously contracted or for money due.
- 15 (7) Real property:
 16 (A) conveyed to an insurer in connection with the insurer's
 17 investments in:
 18 (i) real estate contracts; or
 19 (ii) real estate under lease;
 20 (B) conveyed to an insurer for the purpose of leasing; or
 21 (C) acquired by an insurer for the purpose of investment
 22 under a law, an order, or a regulation authorizing the
 23 investment;
 24 the value of which is determined in a manner satisfactory to
 25 the department.
- 26 (8) Real property conveyed to an insurer in satisfaction of
 27 debts previously contracted in the course of the insurer's
 28 dealings, or in exchange for real estate conveyed to the
 29 insurer.
- 30 (9) Real property purchased at sales on judgments or decrees,
 31 or mortgages obtained or made for a judgment or decree.
- 32 (b) The term does not include real property described in
 33 subsection (a)(5) through (a)(9) that:
 34 (1) is not necessary for the convenient transaction of the
 35 insurer's business; and
 36 (2) is not sold by the insurer and disposed of less than:
 37 (A) ten (10) years after the insurer acquired title to the real
 38 property; or
 39 (B) five (5) years after the real property ceases to be
 40 necessary for the accommodation of the insurer's business;
 41 unless the insurer procures certification from the
 42 commissioner that the insurer's interests will suffer materially

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by a forced sale of the real estate, in which event the time for the sale may be extended to a time directed by the commissioner in the certification.

Sec. 46. As used in this chapter, "repurchase transaction" means a transaction in which an insurer purchases securities from a business entity that is obligated to repurchase the purchased securities or equivalent securities from the insurer:

- (1) at a specified price; and
- (2) within a specified period or upon demand.

Sec. 47. As used in this chapter, "reverse repurchase transaction" means a transaction in which an insurer sells securities to a business entity and is obligated to repurchase the sold securities or equivalent securities from the business entity:

- (1) at a specified price; and
- (2) within a specified period or upon demand.

Sec. 48. As used in this chapter, "securities lending transaction" means a transaction in which securities are loaned by an insurer to a business entity that is obligated to return the loaned securities or equivalent securities to the insurer within a specified period or upon demand.

Sec. 49. As used in this chapter, "subsidiary" has the meaning set forth for a "subsidiary company" in IC 27-1-23-2.6.

Sec. 50. As used in this chapter, "SVO" refers to the Securities Valuation Office of the NAIC or a successor office established by the NAIC.

Sec. 51. As used in this chapter, "swap" means an agreement to:

- (1) exchange; or
- (2) net;

payments based on the actual or expected price, level, performance, or value of one (1) or more underlying interests.

Sec. 52. As used in this chapter, "U.S. government backed" means an obligation, the interest and principal of which will be repaid in whole or in part by the United States Treasury, a United States government agency, or a United States government sponsored enterprise on the basis that the obligation is:

- (1) the direct obligation or full faith and credit obligation of the United States government;
- (2) otherwise supported by the United States government; or
- (3) backed by pools of assets that are fully insured, guaranteed, or otherwise fully supported by the direct obligation or full faith and credit obligation of the United States government.

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1 **Sec. 53. (a) An insurer, may:**

2 (1) acquire, hold, or invest in investments; or

3 (2) engage in investment practices;

4 **as set forth in this chapter.**

5 **(b) An investment that does not conform to this chapter or rules**
6 **adopted under section 58 of this chapter is not an admitted asset.**

7 **Sec. 54. (a) An insurer's board of directors shall:**

8 (1) adopt a written plan for acquiring and holding
9 investments and for engaging in investment practices,
10 specifying:

11 (A) guidelines concerning the quality, maturity, and
12 diversification of investments; and

13 (B) investment strategies intended to assure that
14 investments and investment practices are appropriate for
15 the:

16 (i) business conducted by the insurer;

17 (ii) insurer's liquidity needs; and

18 (iii) insurer's capital and surplus; and

19 (2) review and assess the insurer's technical investment and
20 administrative capabilities and expertise before adopting the
21 written plan described in subdivision (1).

22 **(b) Investments acquired and held under this chapter must be**
23 **acquired and held under the supervision and direction of the board**
24 **of directors of an insurer. The board of directors shall evidence by**
25 **formal resolution, at least annually, that the board of directors has**
26 **determined whether all investments have been made in accordance**
27 **with delegations, standards, limitations, and investment objectives**
28 **prescribed by the board of directors or a committee of the board**
29 **of directors charged with the responsibility to direct the insurer's**
30 **investments.**

31 **(c) An insurer's board of directors or committee of the board of**
32 **directors shall, at least quarterly:**

33 (1) receive and review a summary report on the insurer's
34 investment portfolio, investment activities, and investment
35 practices engaged in under delegated authority, to determine
36 whether the investment activity of the insurer is consistent
37 with the written plan adopted under subsection (a); and

38 (2) review and revise the written plan adopted under
39 subsection (a), as appropriate.

40 **(d) The board of directors of an insurer shall require that:**

41 (1) records of authorizations or approvals;

42 (2) other documentation required by the board of directors;

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1 and

2 (3) reports of action taken under authority delegated under
3 the written plan adopted under subsection (a);

4 are regularly provided by the insurer to the board of directors.

5 (e) A director of an insurer shall perform the director's duties
6 in good faith and with a degree of care that an ordinarily prudent
7 individual in a like position would use under similar circumstances.

8 (f) If an insurer does not have a board of directors, references
9 to the board of directors in this section are considered references
10 to the governing body of the insurer that has authority equivalent
11 to that of a board of directors.

12 **Sec. 55. (a) This section applies to repurchase transactions,
13 reverse repurchase transactions, and securities lending
14 transactions.**

15 (b) An insurer's board of directors shall adopt a written plan
16 that is consistent with the written plan adopted under section 54(a)
17 of this chapter specifying guidelines and objectives to be followed
18 with respect to transactions described in subsection (a), including:

19 (1) a description of the manner in which cash received will be
20 invested or used for general corporate purposes of the
21 insurer;

22 (2) operational procedures to manage:

23 (A) interest rate risk;

24 (B) counterparty default risk;

25 (C) conditions under which proceeds from reverse
26 repurchase transactions may be used in the ordinary
27 course of business; and

28 (D) use of acceptable collateral in a manner that reflects
29 the liquidity needs of the transaction; and

30 (3) the extent to which the insurer may engage in the
31 transactions.

32 (c) An insurer shall enter into a written agreement for each
33 transaction described in this section. The written agreement must:

34 (1) require that the transaction will terminate:

35 (A) not more than one (1) year from the inception of the
36 transaction; or

37 (B) upon the earlier demand of the insurer; and

38 (2) be with:

39 (A) the business entity counterparty; or

40 (B) if the transaction is a securities lending transaction, an
41 agent acting on behalf of the insurer if the agent is a
42 qualified business entity and the written agreement:

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- (i) requires the agent to enter into separate agreements with each counterparty that are consistent with the requirements of this section; and
- (ii) prohibits securities lending transactions under the written agreement with the agent or affiliates of the agent.

(d) Cash received in a transaction described in this section must be:

- (1) invested in compliance with this chapter and in a manner that recognizes the liquidity needs of the transaction; or
- (2) used by the insurer for the insurer's general corporate purposes.

(e) For the period during which a transaction remains outstanding, the insurer or an agent or a custodian of the insurer shall maintain, with regard to acceptable collateral received in a transaction under this section, either physically or through the book entry systems of the Federal Reserve, Depository Trust Company, Participants Trust Company, or other securities depositories approved by the commissioner:

- (1) possession of the acceptable collateral;
- (2) a perfected security interest in the acceptable collateral; or
- (3) in the case of a jurisdiction outside the United States, title to or rights of a secured creditor to the acceptable collateral.

(f) In a securities lending transaction, an insurer shall receive acceptable collateral that has a market value on the transaction date that is equal to at least one hundred two percent (102%) of the market value of the securities loaned by the insurer in the transaction as of the transaction date. If at any time the market value of the acceptable collateral is less than the market value of the loaned securities, the business entity counterparty shall deliver additional acceptable collateral, the market value of which, together with the market value of all acceptable collateral then held in connection with the transaction, is equal to at least one hundred two percent (102%) of the market value of the loaned securities.

(g) In a reverse repurchase transaction, the insurer shall receive acceptable collateral that has a market value on the transaction date that is equal to at least ninety-five percent (95%) of the market value of the securities transferred by the insurer in the transaction as of the transaction date. If at any time the market value of the acceptable collateral is less than ninety-five percent (95%) of the market value of the securities transferred, the

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business entity counterparty shall deliver additional acceptable collateral, the market value of which, together with the market value of all acceptable collateral then held in connection with the transaction, is equal to at least ninety-five percent (95%) of the market value of the transferred securities.

(h) In a repurchase transaction, the insurer shall receive as acceptable collateral transferred securities that have a market value that is equal to at least one hundred two percent (102%) of the purchase price paid by the insurer for the securities. If at any time the market value of the acceptable collateral is less than one hundred percent (100%) of the purchase price paid by the insurer, the business entity counterparty shall provide additional acceptable collateral, the market value of which, together with the market value of all acceptable collateral then held in connection with the transaction, is equal to at least one hundred two percent (102%) of the purchase price. Securities acquired by an insurer in a repurchase transaction may not be sold in a reverse repurchase transaction, loaned in a securities lending transaction, or pledged in any other manner.

Sec. 56. (a) An insurer shall invest the insurer's capital or guaranty fund only as follows:

(1) In cash.

(2) In:

(A) direct obligations of the United States; or

(B) obligations for which principal and interest are secured or guaranteed by the United States.

(3) In:

(A) direct obligations; or

(B) obligations secured by the full faith and credit; of a state of the United States or the District of Columbia.

(4) In obligations of a county, township, city, town, village, school district, or another municipal district in the United States that are direct obligations of the county, township, city, town, village, or district issuing the obligations.

(5) In obligations secured by mortgages or deeds of trust or unencumbered real estate or perpetual leases on unencumbered real estate in the United States that:

(A) do not exceed eighty percent (80%) of the fair value of the security as determined in a manner satisfactory to the department; or

(B) may exceed eighty percent (80%) of the fair value of the security if, and to the extent that, the excess is

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guaranteed or insured by:

- (i) the United States;
- (ii) a state, territory, or possession of the United States;
- (iii) the District of Columbia;
- (iv) Canada;
- (v) a province of Canada; or
- (vi) an administration, agency, authority, or instrumentality of a governmental unit specified in items (i) through (v).

If improvements on the real estate constitute a part of the value on which the loan is made, the improvements must be insured against fire and tornado for the benefit of the mortgagee. For purposes of this section, real estate is not considered to be encumbered because of the existence of taxes or assessments that are not delinquent, instruments creating or reserving mineral, oil, or timber rights, rights-of-way, joint driveways, sewer rights, rights-in-walls, building restrictions, or other restrictive covenants, or when the real estate is subject to lease in whole or in part with rents or profits reserved to the owner.

(b) The restrictions described in subsection (a)(5) do not apply to loans or investments made under IC 27-1-13-5.

Sec. 57. (a) An insurer shall not acquire an investment or engage in an investment practice if, as a result of and after giving effect to the investment, the aggregate amount of all investments in one (1) business entity then held by the insurer would exceed five percent (5%) of the insurer's admitted assets.

(b) An insurer may acquire investments that conform to the investment ratings, in amounts equal to the percentages of the insurer's admitted assets, as provided in the following table:

GRADE	PERCENTAGE
Investment grade	Aggregate: No limit
Medium and low grade	Aggregate: 20 %
Low grade	Aggregate: 10 %

(c) An insurer may invest the following percentages of the insurer's admitted assets in the following investments:

INVESTMENT	PERCENTAGE
Cash and cash equivalents	No limit
Domestic government bonds	No limit
Corporate bonds	Single entity: 5% Aggregate: No limit
Equity interests:	Aggregate: 25%

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1	Preferred stock	Single entity: 5%
2	Common stock	Single entity: 5%
3	Exchange traded funds	Single entity: 5%
4	Investment in affiliate,	
5	excluding subsidiaries	Single entity: 5%
6	Mutual funds	Single entity: 5%
7	Asset backed securities	
8	Non U.S. government backed	Single entity: 5%
9		Aggregate: 20%
10	U.S. government backed	No limit
11	Mortgage loans	Single entity: 1%
12		Aggregate: 15%
13	Real estate	Single parcel: 2%
14		Aggregate: 10%
15	Home office	No limit
16	Insurance subsidiary	In accordance with
17		IC 27-1-23-2.6
18	Noninsurance subsidiary	In accordance with
19		IC 27-1-23-2.6
20	Insurer investment pools	Single entity: 5%
21		Aggregate: 25%
22	Foreign investments:	Aggregate: 20%
23	Foreign currency	Single jurisdiction:
24		5%
25	Government bonds	Single entity: 3 %
26		Aggregate: 10 %
27	Business entity	Single entity: 3%
28		Aggregate: 10%
29	Repurchase, reverse	
30	repurchase transactions	Single entity: 5%
31		Aggregate: 15 %
32	Securities lending transactions	Single entity: 5%
33		Aggregate: 40%
34	Derivative:	
35	Hedging transactions	Single entity: 0.5 %
36		Aggregate: 7.5%
37	Income generating	
38	transactions	Single entity: 0.5 %
39		Aggregate: 7.5 %
40	Basket clause	Single entity: 5 %
41		Aggregate: lesser of
42		10% of admitted

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assets or 50% of
surplus as regards
policyholders

Sec. 58. The commissioner may adopt rules under IC 4-22-2 to implement this chapter.

SECTION 2. IC 27-1-23-2.6 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2006]: Sec. 2.6. (a) As used in this section, "entity" means:

- (1) a sole proprietorship;
- (2) a corporation;
- (3) a limited liability company;
- (4) a partnership;
- (5) an association;
- (6) a joint stock company;
- (7) a mutual fund;
- (8) a joint venture;
- (9) a trust;
- (10) a joint tenancy;
- (11) an unincorporated organization; or
- (12) a similar entity.

(b) As used in this section, "primary company" means a domestic insurance company that beneficially owns more than fifty percent (50%) of one (1) or more subsidiary companies.

(c) As used in this section, "subsidiary company" means an entity of which more than fifty percent (50%) is beneficially owned by an insurance company.

(d) As used in this section, "total investment of the primary company" means the total of:

- (1) a direct investment by a primary company in an asset; plus
- (2) the primary company's proportionate share of an investment made by a subsidiary company of the primary company.

The primary company's proportionate share must be determined by multiplying the amount of the subsidiary company's investment by the percentage of the primary company's ownership interest in the subsidiary company.

(e) A primary company may, independently or in cooperation with another person, organize or acquire one (1) or more subsidiary companies.

(f) A subsidiary company of a primary company may conduct business of any kind, and the authority to conduct the business is not limited because of the status of the subsidiary company as a subsidiary company of the primary company.

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(g) In addition to investments in common stock, preferred stock, debt obligations, and other securities as permitted under IC 27-1-12-2 or ~~IC 27-1-13-3~~, **IC 27-1-13.5**, a primary company to which this section applies may, directly or through one (1) or more subsidiary companies, also do the following:

(1) Invest in common stock, preferred stock, debt obligations, and other securities of one (1) or more subsidiary companies, amounts that in total do not exceed the lesser of ten percent (10%) of the primary company's admitted assets or fifty percent (50%) of the primary company's surplus as regards policyholders, if, after the investments, the primary company's surplus as regards policyholders is reasonable in relation to the primary company's outstanding liabilities and adequate to the primary company's financial needs. In calculating the amount of investments permitted under this subdivision:

(A) investments, whether made directly or through one (1) or more subsidiary companies, in domestic or foreign insurance subsidiary companies and health maintenance organizations must be excluded; and

(B) to the extent that expenditures relate to an investment other than an investment described in clause (A), the following must be included:

(i) Total net money or other consideration expended and obligations assumed in the acquisition or formation of a subsidiary company, including all organizational expenses and contributions to capital and surplus of the subsidiary company, whether or not represented by the purchase of capital stock or issuance of other securities.

(ii) All amounts expended in acquiring additional common stock, preferred stock, debt obligations, and other securities and all contributions to the capital or surplus of a subsidiary company subsequent to the subsidiary company's acquisition or formation.

(2) Notwithstanding subdivision (1), invest an amount in common stock, preferred stock, debt obligations, and other securities of one (1) or more subsidiary companies engaged or organized to engage exclusively in the ownership and management of assets authorized as investments for the primary company, if the subsidiary company agrees to limit the subsidiary company's investment in an asset so that, when combined with the investments of the primary company, the total investment of the primary company will not exceed the investment limitations

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described in subdivision (1) or in any applicable provision of
IC 27-1-12-2 or ~~IC 27-1-13-3~~ **IC 27-1-13.5**.

(3) Notwithstanding subdivision (1), with the prior approval of
the commissioner, invest a greater amount in common stock,
preferred stock, debt obligations, or other securities of one (1) or
more subsidiary companies, if, after the investment, the primary
company's surplus as regards policyholders is reasonable in
relation to the primary company's outstanding liabilities and
adequate to the primary company's financial needs.

(h) Investments that are made under this section in common stock,
preferred stock, debt obligations, or other securities of a subsidiary
company are not subject to restrictions or prohibitions under
IC 27-1-12-2 or ~~IC 27-1-13-3~~ **IC 27-1-13.5** that otherwise apply to
investments of primary companies.

(i) Before a primary company to which this section applies makes
an investment described in subsection (g), a primary company shall
make a determination regarding whether the proposed investment
meets the applicable requirements by determining the applicable
investment limitations as though the investment has been made,
considering:

(1) the currently outstanding principal balance on previous
investments in debt obligations; and

(2) the value of previous investments in equity securities as of the
day that the investments in equity securities were made;

net of any return of capital invested.

(j) If a primary company ceases to control a subsidiary company, the
primary company shall dispose of any investment in the subsidiary
company made under this section not more than:

(1) three (3) years from the time of the cessation of control; or

(2) the period determined appropriate by the commissioner;

unless the investment meets the requirements for investment under any
applicable provision of IC 27-1-12-2 or ~~IC 27-1-13-3~~ **IC 27-1-13.5** and
the primary company has notified the commissioner that the investment
meets the requirements.

(k) A primary company, at the time of establishing a subsidiary
company, must possess:

(1) assets of not less than twenty-five million dollars
(\$25,000,000); or

(2) not less than three million five hundred thousand dollars
(\$3,500,000) of:

(A) combined capital and surplus in the case of a stock
company; and

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(B) surplus in the case of a mutual company.

(l) The department has the power to:

(1) conduct periodic examinations of a subsidiary company;

(2) require reports that reflect the effect of the condition and operation of a subsidiary company on the financial condition of a primary company; and

(3) make additional examinations or require other reports with respect to a subsidiary company that are necessary to carry out the purposes of this section.

A noninsurance subsidiary company shall annually furnish the department financial statements that are prepared under generally accepted accounting principles and certified by an independent certified public accountant and the department may rely on the statements. If a subsidiary company conducts the business of the subsidiary company in a manner that clearly tends to impair the capital or surplus fund of the primary company, or otherwise makes the operation of the primary company financially unsafe, the department may act under IC 27-1-3-19 with respect to the primary company.

(m) A primary company and a subsidiary company shall, in all respects, stand before the law as separate and distinct companies and neither company is liable to the creditors, policyholders, or stockholders of the other company, acts or omissions of an officer, director, stockholder, or member of either company notwithstanding.

(n) The board of directors and officers of a primary company and a subsidiary company may be identical. However, the affairs of each company shall be carried on separate and distinct from the other company.

(o) A foreign subsidiary company shall be treated in the same manner as other foreign companies, except that the treatment may be withheld or suspended with respect to a subsidiary company that is domiciled in a state that does not treat a:

(1) primary company; or

(2) subsidiary company;

that is domiciled in Indiana in a manner equal to a foreign or domestic company doing business in the other state.

(p) Interests in a subsidiary company that are owned by a primary company must be registered in the name of the primary company except for shares that are required under Indiana law to be registered in the name of another person.

SECTION 3. IC 27-5.1-2-8 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2006]: Sec. 8. The following provisions apply to standard companies and extended companies:

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- 1 (1) IC 27-1-3.
 - 2 (2) IC 27-1-3.1.
 - 3 (3) IC 27-1-5-3.
 - 4 (4) IC 27-1-7-14 through IC 27-1-7-16.
 - 5 (5) IC 27-1-7-21 through IC 27-1-7-23.
 - 6 (6) IC 27-1-9.
 - 7 (7) IC 27-1-10.
 - 8 (8) ~~IC 27-1-13-3~~ through IC 27-1-13-4.
 - 9 (9) IC 27-1-13-6 through IC 27-1-13-9.
 - 10 **(10) IC 27-1-13.5.**
 - 11 ~~(10)~~ **(11)** IC 27-1-15.6.
 - 12 ~~(11)~~ **(12)** IC 27-1-20-1.
 - 13 ~~(12)~~ **(13)** IC 27-1-20-4.
 - 14 ~~(13)~~ **(14)** IC 27-1-20-6.
 - 15 ~~(14)~~ **(15)** IC 27-1-20-9 through IC 27-1-20-11.
 - 16 ~~(15)~~ **(16)** IC 27-1-20-14.
 - 17 ~~(16)~~ **(17)** IC 27-1-20-19 through IC 27-1-20-21.3.
 - 18 ~~(17)~~ **(18)** IC 27-1-20-23.
 - 19 ~~(18)~~ **(19)** IC 27-1-20-30.
 - 20 ~~(19)~~ **(20)** IC 27-1-22.
 - 21 ~~(20)~~ **(21)** IC 27-4-1.
 - 22 ~~(21)~~ **(22)** Except as provided in IC 27-6-1.1-6, IC 27-6-1.1-2.
 - 23 ~~(22)~~ **(23)** IC 27-6-2.
 - 24 ~~(23)~~ **(24)** IC 27-7-2.
 - 25 ~~(24)~~ **(25)** IC 27-9.
 - 26 ~~(25)~~ **(26)** IC 34-30-17.
- 27 SECTION 4. IC 27-5.1-3-3 IS AMENDED TO READ AS
- 28 FOLLOWS [EFFECTIVE JULY 1, 2006]: Sec. 3. (a) A standard
- 29 company may not insure property located outside the standard
- 30 company's territory, as described in the standard company's articles of
- 31 incorporation, unless the standard company meets the following
- 32 requirements for expansion:
- 33 (1) A standard company with annual direct written premiums that
 - 34 total not less than one hundred thousand dollars (\$100,000) may
 - 35 expand the territory in which the standard company insures
 - 36 property to not more than ten (10) counties if the expansion is
 - 37 approved by the affirmative vote of a majority of the standard
 - 38 company's:
 - 39 (A) board of directors; or
 - 40 (B) policyholders present and voting at a meeting of the
 - 41 policyholders.
 - 42 (2) A standard company with annual direct written premiums that

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total not less than two hundred fifty thousand dollars (\$250,000) may expand the territory in which the standard company insures property to more than ten (10) counties if the expansion is approved by the affirmative vote of a majority of the standard company's:

(A) board of directors; or

(B) policyholders present and voting at a meeting of the policyholders.

(b) The net retention per risk of a standard company may not exceed two-tenths percent (0.2%) of the standard company's insurance in force.

(c) A standard company shall make investments in accordance with ~~IC 27-1-13-3~~. **IC 27-1-13.5.**

SECTION 5. IC 27-5.1-4-7 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2006]: Sec. 7. An extended company shall make investments in accordance with ~~IC 27-1-13-3~~. **IC 27-1-13.5.**

SECTION 6. IC 27-7-3-7 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2006]: Sec. 7. Every company described in section 3 of this chapter, before engaging in business, shall deposit with the department the sum of fifty thousand dollars (\$50,000) either out of its capital or surplus. The deposit shall be known as the title insurance fund and must be deposited in **the following** securities ~~of the kind and character designated by IC 27-1-13-3(b)~~. **as defined in IC 27-1-13.5:**

(1) Cash.

(2) Domestic government bonds.

(3) Mortgage loans.

(4) U.S. government bonds.

SECTION 7. IC 27-7-3-9 IS AMENDED TO READ AS FOLLOWS [EFFECTIVE JULY 1, 2006]: Sec. 9. Every company described in section 3 of this chapter shall annually set apart, accumulate, and maintain, in a fund to be known as the title insurance reserve fund, securities ~~of the kind and character designated by IC 27-1-13-3(b)~~ **described in IC 27-7-3-7** of the face amount equal to ten percent (10%) of the actual premiums collected during the preceding year by the company on account of such title insurance, until the fund totals fifty thousand dollars (\$50,000). The fund shall be maintained in the treasury of the company as additional security to the holders of policies issued by the company. However, at its option, the company may deposit the title insurance reserve fund with the department in the amount of ten thousand dollars (\$10,000), or any multiple thereof up to fifty thousand dollars (\$50,000). This deposit shall be known as the

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1 title insurance reserve fund deposit.

2 SECTION 8. IC 27-13-11-1 IS AMENDED TO READ AS
3 FOLLOWS [EFFECTIVE JULY 1, 2006]: Sec. 1. Except for
4 investments under IC 27-13-4-1(a)(1), the funds of a health
5 maintenance organization or limited service health maintenance
6 organization may be invested only as follows:

7 (1) The funds of a health maintenance organization or limited
8 service health maintenance organization that is domiciled in
9 Indiana may be invested only in the types of securities and other
10 investments in which investment is authorized under
11 ~~IC 27-1-13-3~~; **IC 27-1-13.5**.

12 (2) The funds of a foreign corporation (as defined in IC 27-1-2-3)
13 that obtains a certificate of authority to operate a health
14 maintenance organization under IC 27-13-2-3 or a limited service
15 health maintenance organization under IC 27-13-34-9 may be
16 invested only in the types of securities and other investments in
17 which investment is authorized:

18 (A) under the law of the state in which the foreign corporation
19 is domiciled, if that law is acceptable to the commissioner; or

20 (B) under ~~IC 27-1-13-3~~; **IC 27-1-13.5**, if the law of the state in
21 which the foreign corporation is domiciled is silent or if the
22 law of that state is not acceptable to the commissioner.

23 SECTION 9. IC 27-1-13-3 IS REPEALED. [EFFECTIVE JULY 1,
24 2006]

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